

Message Text

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PAGE 01 TEL AV 03854 01 OF 02 221150Z
ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
CEA-01 AGRE-00 /084 W
-----082531 221208Z /11
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LIMITED OFFICIAL USE SECTION 1 OF 2 TEL AVIV 3854

E.O. 11652: N/A
TAGS: ECON, IS
SUBJECT: ECONOMIST MAGAZINE FEB 4 ARTICLE ON ISRAEL ECONOMY

REF: (A) STATE 63915, (B) TEL AVIV 3634

1. SUMMARY: WE FIND ECONOMIST PIECE ON ISRAEL ECONOMY
IN FEB 4 ISSUE REplete WITH MISCONCEPTIONS AND ERRORS
OF FACT AND FAR BELOW THE QUALITY ONE WOULD EXPECT OF
ECONOMIST ANALYSES. WE DOUBT THAT THE AUTHOR PUT MUCH
RESEARCH INTO THE ARTICLE BESIDES TALKING TO A FEW DIS-
GRUNTLED JOURNALISTS AND OPPOSITION POLITICIANS. DE-
PARTMENT SHOULD ADVISE HOTTELET NOT TO TAKE ITS ECONOMIC
CONTENT SERIOUSLY. END SUMMARY.

2. MAJOR AND MINOR DEPARTURES FROM REALITY INCLUDE,
BUT ARE NOT LIMITED TO:
--INFLATION RATE. WHILE EMBASSY (AND GOI ANALYSTS,
IF PRESSED) THINKS 30 PERCENT INFLATION RATE PREDICTED
IN NATIONAL BUDGET IS A BIT OPTIMISTIC--35 TO 40 PERCENT
SEEMS MORE LIKELY--THE INFLATION RATE IS NOT "RUNAWAY"
OR ACCELERATING. THE PI ROSE 2.0 PERCENT IN DECEM-
BER, 2.3 PERCENT IN JANUARY AND 1.6 PERCENT IN
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PAGE 02 TEL AV 03854 01 OF 02 221150Z

FEBRUARY. INFLATION IN ISRAEL IS MOSTLY COST-PUSH;
AND, BARRING HUGE WAGE INCREASES IN THE CURRENT LABOR
NEGOTIATIONS, SHOULD NOT CHANGE INTO THE RUNAWAY
DEMAND-PULL PRICE CHANGES FOUND IN SOME DEVELOPING
COUNTRIES. MOST BUSINESSMEN WE TALK TO ARE NOT
WORRIED ABOUT A "RUNAWAY" INFLATION.
--THE ECONOMIST SHOULD KNOW BETTER THAN TO CALL

THE OCTOBER (NOT NOVEMBER) SHIFT IN THE EXCHANGE RATE
A "DEVALUATION". IT WAS A DEPRECIATION.

--GROWTH RATE. THE 4 PERCENT GROWTH RATE PREDIC-
TION IN THE NATIONAL BUDGET IS NOT UNREALISTIC. AFTER
SMALL (NON-ZERO) GROWTH IN THE LAST TWO YEARS, A BETTER,
EXPORT-LED GROWTH RATE IS WIDELY EXPECTED IN 1978 (SEE
TEL AVIV A-41).

--PRIME MINISTER BEGIN DID NOT ORGANIZE THE NEW
ECONOMIC POLICY. FINANCE MINISTER EHRLICH AND HIS
LIBERAL PARTY COLLEAGUES DID, JUST AS THEY SAID THEY
WOULD, ALTHOUGH THE TIMING AND EXTENT OF THE CHANGES IN
FREEING FOREIGN EXCHANGE TRANSACTIONS SURPRISED JUST
ABOUT EVERYONE.

--WE ARE UNAWARE OF WIDESPREAD USE OF FOREIGN CUR-
RENCY BY ISRAELIS FOR EVERYDAY TRANSACTIONS--AND WE
SUBMIT THAT BUYING A HOUSE IS NOT AN EVERYDAY TRANSACTION.
WHILE A VISITING JOURNALIST WILL FIND THAT TOURIST
SHOPS AND HOTELS WILL ACCEPT FOREIGN CURRENCY,
ISRAELIS DO THEIR SHOPPING WITH POUNDS.

--WHEN THE NEW ECONOMIC POLICY WAS INTRODUCED, THE
INITIAL REACTION OF ISRAELIS WAS TO SELL, NOT BUY,
FOREIGN CURRENCY. SINCE THEN, AS YIELDS ON RESIDENT
FOREIGN CURRENCY ACCOUNTS, SO CALLED PATAM DEPOSITIS,
HAVE RISEN ABOVE POUND-DENOMINATED FINANCIAL ASSETS,
THERE HAS BEEN A SHIFT IN THE COMPOSITION OF ASSET
PORTFOLIOS. WHETHER THIS SHIFT WILL CONTINUE OR BE
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PAGE 03 TEL AV 03854 01 OF 02 221150Z

REVERSED DEPENDS ON RELATIVE YIELDS.

-THE LAST TIME WE CHECKED, THE BLACK MARKET WAS
MORIBUND. CURRENCY RESTRICTIONS ARE A SINE QUA NON
OF A BLACK MARKET AND THERE ARE FEW RESTRICTIONS LEFT
HERE, AND EVEN THOSE ARE NOT ENFORCED STRICTLY.

--THE GOI HAS NOT YET FACED UP TO SOME OF THE HARD
DECISIONS IT MUST MAKE IN THE ECONOMIC AND SOCIAL
SPHERES, AS WE HAVE REPORTED; BUT IT IS SOMEWHAT SUPER-
FICIAL TO SAY IT IS LETTING ECONOMIC MATTERS DRIFT
BECAUSE ITS MIND IS ELSEWHERE. MANY OF ITS ACTIONS
IN THE PAST FEW MONTHS ARE CERTAINLY OPEN TO CRITICISM SINCE
THEY INVOLVE THE AD HOC DECISION-MAKING SO COMMON HERE.
MUCH OF THIS MAY BE BECAUSE OF LIBERAL PARTY RELUCTANCE TO
INTERFERE EXTENSIVELY IN THE ECONOMY WHILE THE EFFECTS OF THE
NEW ECONOMIC POLICY WORK THEMSELVES OUT--A PROCESS WHICH WILL
TAKE MONTHS. ANOTHER IS THAT THE GOI DOES NOT HAVE A GREAT
DEAL OF LEEWAY IN THE BUDGETING PROCESS SINCE MOST OF THE

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PAGE 01 TEL AV 03854 02 OF 02 221156Z
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LIMITED OFFICIAL USE SECTION 2 OF 2 TEL AVIV 3854

EXPENDITURES ARE EMBEDDED IN LAW. LIKEWISE, AN ANALYSIS OF A PEACETIME ISRAELI ECONOMY SHOULD INVOLVE FAR MORE THAN THE SIMPLISTIC, FOUR-SENTENCE OFFERING BY THE AUTHOR.

--THE FINANCE MINISTRY PROBLEMS IN HOLDING ITS REVENUE DEPARTMENT EMPLOYEES ARE NOT DUE TO A LACK OF INTERNAL DISCIPLINE IN THE MOF. PRIVATE INDUSTRY IS SIMPLY HIRING AWAY GOI-TRAINED TAX EXAMINERS AS TAX ADVISORS AT HIGHER SALARIES THAN THE GOI CAN PAY.

--THE LIKUD KNESSET MEMBERS WHO HAVE SHARPLY QUESTIONED GOI ECONOMIC POLICIES ARE ALMOST ALL HERUTNIKS WHO FIND IT POLITICALLY EXPEDIENT TO PAY ATTENTION TO THEIR LOW-INCOME CONSTITUENTS' CONCERNS. IN SPITE OF SOME HERUT-LIBERAL CONTROVERSIES ON SOCIAL AND ECONOMIC POLICY, WE FIND NO SERIOUS OPPOSITION IN THE COALITION TO CONTINUED LIBERAL PARTY DIRECTION OF ECONOMIC POLICY.

--THE ARTICLE CONFUSES EHRlich'S POSITION WITH THAT OF THE HISTADRUT. THE HISTADRUT, NOT EHRlich, HAS CALLED FOR A PARTIAL FREEZE ON PRICES, WAGES, AND TAXES.

--FINALLY, THE HISTADRUT, AS OPPOSED TO A FEW PUBLIC SERVICE UNIONS, HAS BEEN FAR FROM MILITANT IN ITS OPPOSITION TO GOI ECONOMIC POLICIES. IT AND THE GOI HAVE NEARLY REACHED AGREEMENT ON A WAGE SETTLEMENT (SEE TEL AVIV 3690 AND PREVIOUS). FAR FROM GENEROUSLY SUPPORTING MAJOR STRIKES AGAINST GOI WAGE
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PAGE 02 TEL AV 03854 02 OF 02 221156Z

POLICY, THE HISTADRUT HAS TRIED TO RESTRAIN THE MORE RAMBUNCTIOUS UNIONS.

3. WHILE WE COULD FIND MORE POINTS OF DISAGREEMENT, THE

ABOVE SHOULD SUFFICE. THE OVERALL TENOR OF THE ARTICLE IS NOT FAR FROM WHAT WE HAVE HEARD FROM SOME DISGRUNTLED JOURNALISTS AND OPPOSITION POLITICIANS. THERE IS MUCH THAT NEEDS CORRECTING IN ISRAELI ECONOMIC POLICY, BUT THIS AUTHOR DID NOT DO HIS HOMEWORK WELL--AND IT SHOWS. WE ARE A BIT SHOCKED AT THE SIMPLISTIC VIEWS PRESENTED. HOTTELET SHOULD BE SO ADVISED. VIETS

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